

STARC OF LOUISIANA, INC.

Audits of Financial Statements

June 30, 2014 and 2013

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Independent Auditor's Report

To the Board of Directors
STARC of Louisiana, Inc.
Slidell, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of STARC of Louisiana, Inc. (a Louisiana not-for-profit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of STARC of Louisiana, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of STARC of Louisiana, Inc. as of and for the year ended June 30, 2013 were audited by other auditors whose report dated December 20, 2013 expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014 on our consideration of STARC of Louisiana, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering STARC of Louisiana, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Covington, LA
November 24, 2014

STARC OF LOUISIANA, INC.
Statements of Financial Position
June 30, 2014 and 2013

| | 2014 | 2013 |
|--|---------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 3,809,848 | \$ 3,824,304 |
| Accounts Receivable, Net | 606,540 | 581,734 |
| Unconditional Promises to Give, Net | 237,260 | 330,067 |
| Linen Inventory | 5,266 | 12,941 |
| Prepaid Expenses | 35,471 | 39,739 |
| Total Current Assets | 4,694,385 | 4,788,785 |
| Property and Equipment | | |
| Buildings and Improvements | 4,064,785 | 3,973,063 |
| Furniture and Equipment | 601,660 | 601,791 |
| Vehicles | 1,068,752 | 1,031,898 |
| | 5,735,197 | 5,606,752 |
| Less: Accumulated Depreciation | (2,817,394) | (2,537,500) |
| | 2,917,803 | 3,069,252 |
| Land | 486,877 | 486,877 |
| Total Property and Equipment, Net | 3,404,680 | 3,556,129 |
| Other Assets | | |
| Deposits | 500 | 1,100 |
| Other | 52,015 | 60,000 |
| Total Other Assets | 52,515 | 61,100 |
| Total Assets | \$ 8,151,580 | \$ 8,406,014 |

The accompanying notes are an integral part of these financial statements.

STARC OF LOUISIANA, INC.
Statements of Financial Position (Continued)
June 30, 2014 and 2013

| | 2014 | 2013 |
|---|---------------------|---------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts Payable | \$ 86,779 | \$ 83,237 |
| Accrued Salaries, Wages and Taxes | 553,967 | 451,547 |
| Accumulated Paid Leave | 180,259 | 157,483 |
| Deferred Revenue | 1,387,406 | 1,535,575 |
| Current Maturities of Long-Term Debt | 91,525 | 74,155 |
| Total Current Liabilities | 2,299,936 | 2,301,997 |
| Other Liabilities | | |
| Long-Term Deferred Compensation | - | 16,943 |
| Long-Term Debt, Net of Current Maturities | 867,799 | 1,214,136 |
| Total Other Liabilities | 867,799 | 1,231,079 |
| Total Liabilities | 3,167,735 | 3,533,076 |
| Net Assets | | |
| Unrestricted | | |
| Undesignated | 4,452,179 | 4,287,234 |
| Board Designated | 45,822 | 88,073 |
| Temporarily Restricted | 485,844 | 497,631 |
| Total Net Assets | 4,983,845 | 4,872,938 |
| Total Liabilities and Net Assets | \$ 8,151,580 | \$ 8,406,014 |

The accompanying notes are an integral part of these financial statements.

STARC OF LOUISIANA, INC.
Statements of Activities
For the Years Ended June 30, 2014 and 2013

| | 2014 | | | 2013 | | |
|--|---------------------|------------------------|---------------------|---------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Revenues, Gains and Other Support | | | | | | |
| Government Grants and Contracts | \$ 4,477,737 | \$ - | \$ 4,477,737 | \$ 4,614,447 | \$ - | \$ 4,614,447 |
| Ad Valorem Taxes | 1,623,067 | - | 1,623,067 | 1,545,195 | - | 1,545,195 |
| Private Providers | 897,064 | - | 897,064 | 861,201 | - | 861,201 |
| Program Services | 301,644 | - | 301,644 | 290,365 | - | 290,365 |
| Sale of Services | 924,738 | - | 924,738 | 1,003,567 | - | 1,003,567 |
| Donations and Private Grants | 158,424 | - | 158,424 | 438,529 | 11,409 | 449,938 |
| United Way Allocation | - | 68,280 | 68,280 | - | 80,067 | 80,067 |
| United Way Designations | 38,084 | - | 38,084 | 27,717 | - | 27,717 |
| Fundraising | 109,171 | - | 109,171 | 86,068 | - | 86,068 |
| Other | 22,419 | - | 22,419 | 31,416 | - | 31,416 |
| | 8,552,348 | 68,280 | 8,620,628 | 8,898,505 | 91,476 | 8,989,981 |
| Net Assets Released from Restrictions | | | | | | |
| Restrictions Satisfied by Payments | 80,067 | (80,067) | - | 28,266 | (28,266) | - |
| Total Revenues, Gains and Other Support | 8,632,415 | (11,787) | 8,620,628 | 8,926,771 | 63,210 | 8,989,981 |
| Expenses | | | | | | |
| Program Services | 6,696,808 | - | 6,696,808 | 6,697,229 | - | 6,697,229 |
| Supporting Services | 1,812,913 | - | 1,812,913 | 1,699,071 | - | 1,699,071 |
| Total Expenses | 8,509,721 | - | 8,509,721 | 8,396,300 | - | 8,396,300 |
| Change in Net Assets | 122,694 | (11,787) | 110,907 | 530,471 | 63,210 | 593,681 |
| Net Assets, Beginning of Year | 4,375,307 | 497,631 | 4,872,938 | 3,844,836 | 434,421 | 4,279,257 |
| Net Assets, End of Year | \$ 4,498,001 | \$ 485,844 | \$ 4,983,845 | \$ 4,375,307 | \$ 497,631 | \$ 4,872,938 |

The accompanying notes are an integral part of these financial statements.

STARC OF LOUISIANA, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2014

| | <u>Program Services</u> | | | | | <u>Supporting Services</u> | | |
|--------------------------------|-------------------------------|--------------------------------|---------------------|------------------------------|---|---------------------------------------|---------------------------------------|---------------------|
| | <u>Adult Habilitation</u> | <u>Infant Habilitation</u> | <u>Residential</u> | <u>Waivered Services</u> | <u>Commercial Business Services</u> | <u>Total Program Services</u> | <u>General and Administrative</u> | <u>Total</u> |
| Salaries and Benefits | \$ 910,137 | \$ 239,854 | \$ 606,536 | \$ 1,915,997 | \$ 495,446 | \$ 4,167,970 | \$ 1,395,451 | \$ 5,563,421 |
| Payroll Taxes | 70,749 | 18,396 | 47,802 | 153,446 | 40,272 | 330,665 | 72,378 | 403,043 |
| Professional Services | 4,911 | 10,344 | 16,155 | 7,931 | 9,974 | 49,315 | 18,990 | 68,305 |
| Day Service Charges - Internal | - | - | 191,637 | - | - | 191,637 | - | 191,637 |
| State Bed Fees | - | - | 126,234 | - | - | 126,234 | - | 126,234 |
| Supplies | 30,727 | 24,675 | 80,037 | 10,124 | 90,545 | 236,108 | 31,164 | 267,272 |
| Interest | 30,959 | 13,814 | 19,600 | 331 | 3,047 | 67,751 | 1,197 | 68,948 |
| Telephone | 17,375 | 4,681 | 12,318 | 11,763 | 7,936 | 54,073 | 35,553 | 89,626 |
| Postage | 813 | 312 | 374 | 1,654 | 1,043 | 4,196 | 2,170 | 6,366 |
| Occupancy | 102,426 | 33,415 | 77,327 | 29,635 | 135,756 | 378,559 | 57,982 | 436,541 |
| Insurance | 86,416 | 20,189 | 55,760 | 100,262 | 97,711 | 360,338 | 39,262 | 399,600 |
| Depreciation and Amortization | 81,860 | 23,193 | 65,203 | 7,447 | 115,668 | 293,371 | 32,278 | 325,649 |
| Travel | 129,661 | 259 | 38,226 | 28,001 | 72,401 | 268,548 | 37,031 | 305,579 |
| Conferences and Training | 4,768 | 2,255 | 7,652 | 23,567 | 2,548 | 40,790 | 2,947 | 43,737 |
| Fundraising | 2,192 | 595 | - | - | - | 2,787 | 8,613 | 11,400 |
| Miscellaneous | 9,817 | 19,733 | 23,580 | 21,265 | 50,071 | 124,466 | 77,897 | 202,363 |
| Total | \$ 1,482,811 | \$ 411,715 | \$ 1,368,441 | \$ 2,311,423 | \$ 1,122,418 | \$ 6,696,808 | \$ 1,812,913 | \$ 8,509,721 |

The accompanying notes are an integral part of these financial statements.

STARC OF LOUISIANA, INC.
Statement of Functional Expenses (Continued)
For the Year Ended June 30, 2013

| | Program Services | | | | | | Supporting Services | |
|--------------------------------|-------------------------------|--------------------------------|---------------------|------------------------------|---|---------------------------------------|---------------------------------------|---------------------|
| | Adult Habilitation | Infant Habilitation | Residential | Waivered Services | Commercial Business Services | Total Program Services | General and Administrative | Total |
| Salaries and Benefits | \$ 913,646 | \$ 258,865 | \$ 612,770 | \$ 1,938,845 | \$ 482,390 | \$ 4,206,516 | \$ 1,082,040 | \$ 5,288,556 |
| Payroll Taxes | 69,868 | 19,082 | 47,616 | 150,355 | 38,220 | 325,141 | 81,374 | 406,515 |
| Professional Services | 9,029 | 18,733 | 30,965 | 12,667 | 24,126 | 95,520 | 5,689 | 101,209 |
| Day Service Charges - Internal | - | - | 190,153 | - | - | 190,153 | - | 190,153 |
| State Bed Fees | - | - | 114,829 | - | - | 114,829 | - | 114,829 |
| Supplies | 25,847 | 26,642 | 75,906 | 9,188 | 62,572 | 200,155 | 19,565 | 219,720 |
| Interest | 32,403 | 17,809 | 21,857 | - | 6,602 | 78,671 | 3,286 | 81,957 |
| Telephone | 17,297 | 5,187 | 12,926 | 12,595 | 10,403 | 58,408 | 40,605 | 99,013 |
| Postage | - | - | - | - | - | - | - | - |
| Occupancy | 86,563 | 22,393 | 85,624 | 33,271 | 231,992 | 459,843 | 168,182 | 628,025 |
| Insurance | 91,812 | 25,593 | 66,151 | 92,440 | 93,850 | 369,846 | 119,701 | 489,547 |
| Depreciation and Amortization | 83,298 | 24,057 | 56,179 | 5,741 | 141,296 | 310,571 | 29,818 | 340,389 |
| Travel | 121,083 | 164 | 28,989 | 24,031 | 53,613 | 227,880 | 29,158 | 257,038 |
| Conferences and Training | - | 6,116 | - | - | - | 6,116 | - | 6,116 |
| Fundraising | - | - | - | - | - | - | 66,769 | 66,769 |
| Miscellaneous | 5,650 | 17,626 | 9,083 | 7,166 | 14,055 | 53,580 | 52,884 | 106,464 |
| Total | \$ 1,456,496 | \$ 442,267 | \$ 1,353,048 | \$ 2,286,299 | \$ 1,159,119 | \$ 6,697,229 | \$ 1,699,071 | \$ 8,396,300 |

The accompanying notes are an integral part of these financial statements.

STARC OF LOUISIANA, INC.
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Change in Net Assets | \$ 110,907 | \$ 593,681 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 325,649 | 340,389 |
| Loss on Disposition of Property and Equipment | 131 | - |
| In-Kind Vehicle Donations | (14,100) | - |
| (Increase) Decrease in: | | |
| Accounts Receivable, Net | (24,806) | 152,012 |
| Pledges Receivable, Net | 92,807 | (330,812) |
| Linen Inventory | (4,535) | 23,672 |
| Prepaid Expenses | 4,268 | (13,481) |
| Deposits | - | (600) |
| Increase (Decrease) in: | | |
| Accounts Payable | 3,542 | (3,101) |
| Accrued Salaries, Wages and Taxes | 102,420 | 191,692 |
| Accumulated Paid Leave | 22,776 | (17,303) |
| Deferred Compensation | (16,943) | - |
| Deferred Revenue | (148,169) | (177,894) |
| Net Cash Provided by Operating Activities | 453,947 | 758,255 |
| Cash Flows from Investing Activities | | |
| Purchase of Day Bed Allocation | - | (60,000) |
| Purchases of Property and Equipment | (139,437) | (215,929) |
| Net Cash Used in Investing Activities | (139,437) | (275,929) |
| Cash Flows from Financing Activities | | |
| Principal Payments on Long-Term Debt | (328,966) | (179,178) |
| Net Cash Used in Financing Activities | (328,966) | (179,178) |
| Net (Decrease) Increase in Cash and Cash Equivalents | (14,456) | 303,148 |
| Cash and Cash Equivalents, Beginning of Year | 3,824,304 | 3,521,156 |
| Cash and Cash Equivalents, End of Year | \$ 3,809,848 | \$ 3,824,304 |

The accompanying notes are an integral part of these financial statements.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

STARC of Louisiana, Inc. (STARC) was incorporated on June 20, 1968. STARC provides day care services, work training services, respite and personal care services, and residential housing for citizens of St. Tammany Parish with mental retardation and/or developmental disabilities.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly reflect all significant receivables, payables, and liabilities.

Basis of Presentation

STARC follows the guidance of the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). STARC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets depending on the existence and/or nature of any donor restrictions.

Revenues and gains are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

Unrestricted undesignated net assets - Assets that are not restricted by donors or for which there are no restrictions.

Unrestricted board designated net assets - Assets that have been designated by the Board of Directors for a specific use or purpose.

Temporarily restricted net assets - The portion of net assets that arise from contributions that are restricted by donors for specific purposes or time periods.

Permanently restricted net assets - A donation, grant, or contract that a portion is restricted by the donor or by law to be maintained by STARC in perpetuity. There were no permanently restricted net assets as of June 30, 2014 and 2013.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, STARC considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable for linen services are stated at unpaid balances, less an allowance for doubtful accounts. STARC provides for losses on linen services accounts receivable using the allowance method. The allowance is based on experience, third-party contract and other circumstances. For all other receivables, it is STARC's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Management believes use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Promises to Give

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Pledges are expected to be collected over a five year period. Management feels any discounts on pledges expected to be collected after one year are not material. As a result, pledges are recorded at the net realizable value. As of June 30, 2014, unconditional promises to give shown on the statements of financial position consisted of \$169,580, net of allowance of \$53,500, due from donors of STARC for Life Campaign and \$67,680 due from United Way. As of June 30, 2013, unconditional promises to give shown on the statements of financial position consisted of \$250,000, net of allowance of \$15,735, due from donors of STARC for Life Campaign and \$80,067 due from United Way.

Linen Inventory

Linen inventory is stated at the lower of cost or market. Inventory is adjusted monthly by amortization of the costs based on number linen turns. Amortization expense for the years ended June 30, 2014 and 2013, was \$20,795 and \$30,958, respectively.

Property and Equipment

Purchased property and equipment in excess of \$5,000, is capitalized and recorded at cost at the date of acquisition. Contributed property and equipment is recorded at fair value at the date of donation. Expenses for maintenance, repairs, and renewals of minor items are charged to earnings as incurred.

Depreciation and amortization is computed by the straight-line method at rates based on the following estimated useful lives:

| | |
|---------------------------|--------------|
| Furniture and Equipment | 5 - 20 Years |
| Building and Improvements | 5 - 30 Years |
| Vehicles | 3 - 5 Years |

Depreciation expense for the years ended June 30, 2014 and 2013, was \$304,855 and \$340,389, respectively.

Restricted and Unrestricted Revenues and Other Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Donated Assets and Services

STARC recorded noncash donations as contributions at its estimated fair market value at the date of donation.

Various functions of STARC are conducted by unpaid officers, board members, and volunteers. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria necessary for recognition. STARC recognizes donated services, if significant in amount, which create or enhance non-financial assets or that require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Functional Expense Allocation

Functional expenses are allocated among the various programs, services, and general and administrative categories based on actual use or management's best estimate.

Income Taxes

STARC qualifies for an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes is made in the accompanying financial statements.

All tax returns have been appropriately filed by STARC. STARC recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. STARC's tax filings are subject to audit by various taxing authorities. STARC's open audit periods are 2010 through 2012. Management evaluated STARC's tax positions and concluded that STARC has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2. Concentrations of Credit Risk

STARC has concentrated its credit risk by maintaining deposits in banks located within the same geographic region that may, at times, exceed amounts covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC). STARC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

STARC OF LOUISIANA, INC.**Notes to Financial Statements**

Note 2. Concentrations of Credit Risk (Continued)

Financial instruments that potentially subject STARC to concentrations of credit risk consist principally of accounts receivable. As of June 30, 2014 and 2013, the Medicaid waiver program represents 48% and 54% of receivables and contracted services represent 16% and 21% of receivables, respectively.

Note 3. Accounts Receivable

As of June 30th, accounts receivable were comprised of:

| | 2014 | 2013 |
|---------------------|-------------------|-------------------|
| Waiver Services | \$ 292,003 | \$ 315,938 |
| Contracted Services | 94,299 | 121,894 |
| Title XIX | 110,191 | 98,029 |
| Supported Services | 82,870 | 12,126 |
| Council on Aging | 17,494 | 22,488 |
| CDBG Contributions | 9,119 | 9,297 |
| Other | 564 | 1,962 |
| Total | \$ 606,540 | \$ 581,734 |

Note 4. Unconditional Promises to Give

As of June 30th, unconditional promises to give were comprised of:

| | 2014 | 2013 |
|-------------------------------------|------------|------------|
| Due Within One Year | \$ 120,827 | \$ 133,214 |
| Due in One to Five Years | 169,933 | 212,588 |
| | 290,760 | 345,802 |
| Less Allowance | (53,500) | (15,735) |
| Unconditional Promises to Give, Net | \$ 237,260 | \$ 330,067 |

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 5. Accumulated Paid Leave

All full-time regular status employees who do not carry the Direct Support Professional title are eligible for paid leave. At the beginning of each fiscal year, STARC deposits into each employee's annual leave account a lump sum amount of leave hours for use of time off during that fiscal year. The amount of leave each receives is based on the employee's job classification and years of eligible service. At the end of each fiscal year, all unused annual leave hours are automatically transferred to the employee's accumulated leave account. Annual leave hours not used are not payable to employees upon resignation, retirement, termination, or death, while accumulated leave hours will be paid out upon resignation, retirement, termination, or death at the employee's current hourly rate.

| | 2014 | 2013 |
|-------------------|-------------------|-------------------|
| Beginning Balance | \$ 174,428 | \$ 172,043 |
| Additions | 174,519 | 189,587 |
| Reductions | (168,688) | (187,202) |
| Ending Balance | <u>\$ 180,259</u> | <u>\$ 174,428</u> |

Note 6. Board Designations

It is the policy of the Board of Directors of STARC to review its plans for future property improvements, acquisitions, and program services from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing. At June 30, 2014 and 2013, STARC's Board had \$45,822 and \$88,073, respectively, in designated funds.

Note 7. Administration Agreement and Deferred Revenue

Effective February 18, 2009, the St. Tammany Parish Council (the Council) and STARC entered into an administration agreement for a period of ten years, whereby STARC would provide services relating to acquiring, constructing, improving, maintaining, and operating authorized activities, services, programs, and/or facilities for individuals with mental retardation and/or developmental disabilities in St. Tammany Parish. The agreement requires the Council to compensate STARC a 1 mill tax annually. STARC received \$1,455,047 and \$1,370,988 of which \$1,251,315 and \$1,419,205 was deferred for the fiscal years ended June 30, 2014 and 2013, respectively, to properly recognize revenue when it will be earned. STARC incurred expenditures relating to the services provided in the amount of \$1,623,067 and \$1,545,195, for the years ended June 30, 2014 and 2013, respectively. The ad valorem tax received from the Council and the expenditures incurred are included in the specific programs and supporting services of STARC.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 8. United Way Allocation/Grants

STARC participates in the United Way for the Greater New Orleans Area allocation and designation of funds process. To participate in the allocation and designation of funds, certain restrictions were placed on STARC's ability to conduct certain fundraising activities or otherwise solicit contributions. The United Way's allocation/designation to STARC for the years ended June 30, 2014 and 2013, was \$99,938 and \$98,398, respectively,

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets of \$485,844 and \$497,631, at June 30, 2014 and 2013, respectively, are donations from corporations, individuals, and pledges receivable from the United Way of Greater New Orleans to support adult services, Jacob's Ladder Adult Day Care, Noah's ARC Child Development Center, and Solid Rock Elderly Services. There was \$80,812 and \$28,266 of temporarily restricted net assets released from donor restrictions for the years ended June 30, 2014 and 2013, respectively.

Note 10. Donated Facilities

STARC occupies donated office space in Slidell. The total value of this donated space was recorded in the statements of activities in donations and private grants for \$32,100, for the years ended June 30, 2014 and 2013, respectively. This amount includes donated rent at fair value of the property and donated utilities.

Note 11. Line of Credit

STARC has an \$800,000 line of credit at June 30, 2014 and 2013, bearing interest at a variable interest rate, and is secured by a collateral real estate mortgage. There was no balance outstanding on the line of credit as of June 30, 2014 and 2013. On April 5, 2013, STARC renewed this line of credit for a two year term ending April 15, 2015.

STARC OF LOUISIANA, INC.**Notes to Financial Statements****Note 12. Long-Term Debt**

STARC had the following notes payable as of June 30th:

| | 2014 | 2013 |
|---|-------------------|---------------------|
| Mortgage note dated March 24, 2011, payable to a bank in monthly installments of \$5,406, consisting of principal and interest accruing at a rate of 6.1% through March 24, 2021. Collateralized by land and building. | \$ 522,356 | \$ 599,696 |
| Mortgage note dated April 28, 2011, payable to a bank in 48 monthly installments beginning May 28, 2012 with monthly payments of \$3,023 to include principal and interest at a rate of 5.125% through April 2016. Collateralized by land and building. | 342,833 | 394,035 |
| Mortgage note dated March 24, 2011, payable to a bank on demand with monthly payments of \$2,433 to include principal and interest at a rate of 6.1% through March 24, 2021. Collateralized by land and building. | 83,342 | 270,030 |
| Note payable dated September 22, 2011, payable to a bank in 48 monthly installments of \$747 consisting of principal and interest accruing at a rate of 5.69% through October 22, 2015. Collateralized by a vehicle. | 10,793 | 18,890 |
| Note payable dated November 26, 2008, payable to a bank in 60 monthly installments of \$1,154 consisting of principal and interest accruing at a rate of 9.85% through November 26, 2013. Collateralized by a vehicle. | - | 5,642 |
| Total | \$ 959,324 | \$ 1,288,293 |

Maturities are as follows:

| Years | Amount |
|--------------|-------------------|
| 2015 | \$ 91,525 |
| 2016 | 89,784 |
| 2017 | 92,427 |
| 2018 | 71,956 |
| 2019 | 71,350 |
| Thereafter | 542,282 |
| Total | \$ 959,324 |

Interest paid on notes payable for the years ended June 30, 2014 and 2013, was \$68,948 and \$81,957, respectively.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 13. Operating Leases

STARC signed one year term leases commencing on September 1, 2008 for the rental of office space. The lease continues on a month to month basis. Monthly rental amounts are approximately \$2,534.

In addition, STARC signed a one year lease commencing on March 1, 2013 for rental of office space. The lease includes two one-year options with three months prior notice. Monthly rent amounts are \$741. Both office space rent agreements contain a donated portion of the lease which is detailed in Note 10. Actual rental expense paid for the years ended June 30, 2014 and 2013, was \$39,300 and \$37,908, respectively, for both locations.

STARC signed a contract that has an indefinite life span for the use of a certain parcel of ground that is entirely enclosed by a fence that has been developed into a park-like area complete with a paved walking path, a bocce ball court, and benches throughout.

Future minimum lease payments on office space are as follows:

| Years | Amount |
|--------------|-------------------------|
| 2015 | \$ 26,008 |
| 2016 | 4,800 |
| 2017 | 4,800 |
| 2018 | 4,800 |
| 2019 | 4,800 |
| Thereafter | <u>800</u> |
| Total | <u>\$ 46,008</u> |

STARC has multiple operating leases for office equipment at various locations. Lease expense for office equipment for the years ended June 30, 2014 and 2013, was \$18,284 and \$31,376, respectively,

Note 14. Related Parties

During the years ended June 30, 2014 and 2013, STARC paid \$83,012 and \$104,470, respectively, for various building renovations and improvements to a local construction contracting company which employs a board member. Payments for miscellaneous building repairs and vehicle maintenance of \$5,699 and \$3,927 were paid to two employees' spouses for the years ended June 30, 2014 and 2013, respectively.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 15. Retirement Plans

STARC established a 401(k) Thrift Plan (the Plan) effective November 1, 2000. Employees of STARC may participate in the Plan, whereby employees elect to make voluntary contributions pursuant to a salary reduction agreement. It is available to all employees who have completed the service requirements (equivalent to one year of service with 1,000 hours of service or more). STARC makes discretionary contributions to the Plan each year as a percentage of all participants' contributions.

On April 19, 2012, STARC established a 457(b) Top Hat Plan whereby the executive staff can contribute to a retirement plan and STARC still be in compliance with the requirements of the 401(k) plan. The highly compensated employees who participate in this plan do so with only their own deferrals. STARC makes discretionary contributions to this plan each year as a percentage of all participants' contributions.

STARC's contribution for both plans for the years ended June 30, 2014 and 2013, was \$12,583 and \$16,302, respectively.

Note 16. Deferred Compensation

On March 16, 2005, the Board established a non-qualified deferred compensation plan for any retiring employee who has been employed by STARC for a minimum of 20 years and has maintained a satisfactory employment record. The compensation payments are not guaranteed and are paid only from Board-approved unrestricted funds that are available in the fiscal year in which a qualifying employee retires. Compensation payments are based on 50%, 75%, or 100% of the employee's annualized regular salary at retirement date, depending on years of service. Deferred compensation expense was \$190,711 and \$148,228, for the years ended June 30, 2014 and 2013, respectively, and is recorded in salary/benefits on the statements of functional expense.

Note 17. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, November 24, 2014, and determined that no events occurred that require disclosure. No subsequent events after this date have been evaluated for inclusion in these financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

To the Board of Directors
STARC of Louisiana, Inc.
Slidell, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of STARC of Louisiana, Inc., which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered STARC of Louisiana, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of STARC of Louisiana, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of STARC of Louisiana, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether STARC of Louisiana, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Covington, LA
November 24, 2014

STARC OF LOUISIANA, INC.
Schedule of Findings and Responses

For the Year Ended June 30, 2014

Part I - Summary of Auditor's Results

Financial Statements

- | | | |
|----|---|------------|
| 1. | Type of auditors' report issued: | Unmodified |
| 2. | Internal control over financial reporting and compliance and other matters: | |
| a. | Material weaknesses identified? | None |
| b. | Significant deficiencies identified? | None |
| c. | Noncompliance material to the financial statements | None |
| 3. | Management letter comment provided? | None |

Federal Awards

Not applicable

Part II - Findings Related to the Financial Statements

None

STARC OF LOUISIANA, INC.
Summary Schedule of Prior Year Audit Findings

For the Year Ended June 30, 2014

Findings Related to the Financial Statements

None